

**MINNESOTA MUNICIPAL UTILITIES ASSOCIATION
ST. LOUIS PARK, MINNESOTA**

**FINANCIAL STATEMENTS
DECEMBER 31, 2024**

MINNESOTA MUNICIPAL UTILITIES ASSOCIATION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Minnesota Municipal Utilities Association
St. Louis Park, Minnesota

Opinion

We have audited the financial statements of Minnesota Municipal Utilities Association, which comprise the statement of financial position as of December 31, 2024, and the related statement of activities and changes in net assets without donor restrictions, functional expenses, and cash flows for the fifteen months then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Minnesota Municipal Utilities Association as of December 31, 2024, and the changes in its net assets and its cash flows for the fifteen months then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Minnesota Municipal Utilities Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Minnesota Municipal Utilities Association's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Minnesota Municipal Utilities Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Minnesota Municipal Utilities Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Smith, Schepke and Associates, Ltd.

Minneapolis, Minnesota
August 4, 2025

MINNESOTA MUNICIPAL UTILITIES ASSOCIATION

STATEMENT OF FINANCIAL POSITION

December 31, 2024

ASSETS

Current Assets

Cash and cash equivalents	\$ 609,362
Accounts receivable, net	925,369
Prepaid expenses	<u>19,071</u>
Total Current Assets	<u>1,553,802</u>

Property and Equipment, net	<u>2,022,705</u>
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Other Assets

Due from Minnesota Municipal Gas Agency	20,373
Security deposit	<u>69,994</u>
Total Other Assets	<u>90,367</u>

TOTAL ASSETS	<u><u>\$ 3,666,874</u></u>
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See Notes to Financial Statements

**LIABILITIES AND NET ASSETS
WITHOUT DONOR RESTRICTITONS**

Current Liabilities

Obligation under line of credit agreement	\$ -
Current portion of finance lease liability	6,914
Current portion of operating lease liability	208,476
Accounts payable	325,034
Accrued payroll and payroll taxes	185,508
Accrued vacation	113,106
Contract liabilities	107,258

Total Current Liabilities	<u>946,296</u>
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Long-Term Liabilities

Finance lease liability, net	19,166
Operating lease liability, net	<u>1,333,140</u>

Total Long-Term Liabilities	<u>1,352,306</u>
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Total Liabilities	<u>2,298,602</u>
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Net Assets Without Donor Restrictions

Board-designated	935,936
Undesignated	<u>432,336</u>

Total Net Assets Without Donor Restrictions	<u>1,368,272</u>
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**TOTAL LIABILITIES AND NET ASSETS
WITHOUT DONOR RESTRICTIONS**

<u><u>\$ 3,666,874</u></u>

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MINNESOTA MUNICIPAL UTILITIES ASSOCIATION

**STATEMENT OF ACTIVITIES AND CHANGES
IN NET ASSETS WITHOUT DONOR RESTRICTIONS
For the Fifteen Months Ended December 31, 2024**

Support and Revenue

Program revenues	\$ 5,899,887
Membership dues	1,897,526
Other revenues	93,787
Interest income	51,684
Member contributions	15,000

Total Support and Revenues	<u>7,957,884</u>
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Functional Expenses

Program services	6,099,897
Membership services	<u>1,685,715</u>

Total Functional Expenses	<u>7,785,612</u>
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Increase in Net Assets	172,272
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NET ASSETS WITHOUT DONOR RESTRICTIONS, BEGINNING OF PERIOD	<u>1,196,000</u>
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NET ASSETS WITHOUT DONOR RESTRICTIONS, END OF PERIOD	<u><u>\$ 1,368,272</u></u>
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MINNESOTA MUNICIPAL UTILITIES ASSOCIATION
STATEMENT OF FUNCTIONAL EXPENSES
For the Fifteen Months Ended December 31, 2024

	Program Services											
	Contract Services	Training Center	Job Training and Safety/ Conventions and Meetings	Gas Circuit Rider	Safety Management	Special Programs	Gas Agency	On Demand	Total	Membership Services	Totals	
Salaries	\$ 11,771	\$ 164,647	\$ 133,372	\$ 114,811	2,283,866	\$ -	\$ 6,467	\$ 61,343	\$ 2,776,277	\$ 1,382,956	\$ 4,159,233	
Benefits	2,580	40,556	44,627	25,923	492,329	-	485	31,837	638,337	357,843	996,180	
Equipment rental and maintenance	-	86,795	43,203	19,428	377,078	-	-	-	526,504	82,726	609,230	
Conferences	-	279,445	91,158	22,643	31,940	-	-	696	425,882	18,409	444,291	
Travel	-	8,664	34,567	16,937	183,036	-	-	26,921	270,125	71,309	341,434	
Payroll taxes	1,774	12,327	9,153	9,237	171,831	-	495	4,543	209,360	93,940	303,300	
Occupancy	-	12,814	-	-	-	-	-	-	12,814	219,064	231,878	
Supplies	-	4,969	7,700	1,486	68,824	-	330	2,135	85,444	40,814	126,258	
Depreciation	-	19,629	15,078	1,112	12,509	-	-	-	48,328	43,454	91,782	
Telephone	-	5,943	1,732	547	29,345	-	50	1,585	39,202	29,336	68,538	
Legal fees	-	-	-	-	-	-	-	-	-	59,528	59,528	
Dues and subscriptions	-	-	-	7,456	-	-	-	-	7,456	51,407	58,863	
Grants and awards	-	-	-	-	-	58,792	-	-	58,792	-	58,792	
Purchased services	-	-	5,850	1,985	-	29,521	-	-	37,356	11,812	49,168	
Insurance	-	8,867	-	-	-	-	-	-	8,867	33,029	41,896	
Printing	-	-	-	-	-	-	-	-	-	31,708	31,708	
Accounting	-	-	-	-	-	-	-	-	-	30,463	30,463	
AMS System Fees	-	-	-	-	-	-	-	-	-	28,788	28,788	
Lobbying expense	-	-	-	-	-	-	-	-	-	19,753	19,753	
Staff development and recruiting	-	-	-	-	-	-	-	-	-	17,791	17,791	
Postage and shipping	-	-	-	-	-	-	-	-	-	10,500	10,500	
Loss on sale of property and equipment	-	-	-	-	-	-	-	-	-	4,277	4,277	
Interest expense	-	-	-	-	-	-	-	-	-	1,441	1,441	
Miscellaneous	-	-	979	-	-	-	-	-	979	(459)	520	
Overhead and administration	-	103,662	158,660	60,002	613,674	18,176	-	-	954,174	(954,174)	-	
Total Functional Expenses	\$ 16,125	\$ 748,318	\$ 546,079	\$ 281,567	\$ 4,264,432	\$ 106,489	\$ 7,827	\$ 129,060	\$ 6,099,897	\$ 1,685,715	\$ 7,785,612	

See Notes to Financial Statements

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MINNESOTA MUNICIPAL UTILITIES ASSOCIATION

STATEMENT OF CASH FLOWS

For the Fifteen Months Ended December 31, 2024

Cash Flows From Operating Activities

Increase in net assets	\$ 172,272
Adjustments to reconcile change in net assets to net cash from operations:	
Loss on sale of property and equipment	4,277
Depreciation	91,782
Non-cash rent expense	13,394
(Increase) Decrease in:	
Accounts receivable	(206,551)
Prepaid expenses	37,097
Increase (Decrease) in:	
Accounts payable	177,522
Accrued payroll and payroll taxes	(10,769)
Accrued vacation	(17,727)
Contract liabilities	(305,729)
Net Cash (Used In) Operating Activities	<u>(44,432)</u>

Cash Flows From Investing Activities

Proceeds from tenant improvement allowance	414,561
Security deposits	(63,019)
Downpayments on vehicle operating leases	(63,048)
Expenditures for property and equipment	<u>(714,660)</u>
Net Cash (Used In) Investing Activities	<u>(426,166)</u>

Cash Flows From Financing Activities

Principal payments on finance lease liability	<u>(10,125)</u>
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Net (Decrease) in Cash and Cash Equivalents	(480,723)
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CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,090,085
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CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 609,362
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SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash Paid During the Year for Interest	\$ 1,441
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 391,538
Right-of-use assets obtained in exchange for lease obligations	
Operating lease	\$ 984,308

See Notes to Financial Statements

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MINNESOTA MUNICIPAL UTILITIES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

1. Description of Organization and Summary of Significant Accounting Policies

Description of Organization

Minnesota Municipal Utilities Association (the Association) is a non-profit association that is organized to protect and assist municipally owned utilities. The Association represents its members' interest in legislative, communications, finance, safety and training, and other areas of advice and service to provide for the ultimate benefit of the consumers of utility services in an efficient and economical manner. The Association also provides educational programs in connection with the operations of the utilities industry.

The Association's Board of Directors has elected to change the Association's fiscal year end from September 30 to December 31 starting in 2024. These financial statements and all related notes present financial results as of and for the fifteen months ended December 31, 2024.

Change in Accounting Principle

During 2024, the Association adopted FASB Accounting Standards Update (ASU) No 2016-13, ASC 326 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. CECL requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost, including accounts receivable. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses.

The Association adopted ASC 326 and all related subsequent amendments thereto effective October 1, 2023 using the modified retrospective approach for all financial assets measured at amortized cost, such as accounts receivable. Results for reporting periods beginning after October 1, 2023 are presented under CECL while prior period amounts continue to be reported in accordance with previously applicable accounting standards ("incurred loss"). The standard did not have a significant impact on the Association's statement of financial position or statement of activities and changes in net assets without donor restrictions.

Basis of Accounting and Support and Revenue Recognition

The Association maintains their books and records on the accrual basis of accounting in accordance with generally accepted accounting principles.

For contracts that are within the scope of FASB ASC 606 *Revenue from Contracts with Customers*, the Association performs the following five steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the Association satisfies a performance obligation.

MINNESOTA MUNICIPAL UTILITIES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Description of Organization and Summary of Significant Accounting Policies (Continued)

Basis of Accounting and Support and Revenue Recognition (continued)

Revenue is measured based on consideration specified in a contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties. The Association recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer.

For performance obligations related to membership dues and program revenues, control transfers to the customer and revenue is recognized over time based on the term of the contract. All other revenues are recognized at a point in time when the event takes place or as the services are performed.

Basis of Presentation

Financial statement presentation follows FASB ASC 958. Under FASB ASC 958, the Association is required to report information regarding its financial position and activities, based on the existence or absence of donor imposed restrictions as either:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to restrictions.

Net Assets With Donor Restrictions – Net assets subject to imposed restrictions. Some imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified. Other imposed restrictions are perpetual in nature, where the restriction stipulates that resources be maintained in perpetuity. The Association had no net assets with donor restrictions as of December 31, 2024.

Cash and Cash Equivalents

The Association considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable and Allowance for Credit Losses

Accounts receivable are carried at their outstanding principal amounts, less an allowance for credit losses. All accounts receivable are expected to be collected within one year of the statement of financial position date.

MINNESOTA MUNICIPAL UTILITIES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Description of Organization and Summary of Significant Accounting Policies (Continued)

Accounts Receivable and Allowance for Credit Losses (Continued)

The Association maintains an allowance for credit losses on its accounts receivable, which represents an estimate of expected losses over the remaining contractual life of its receivables. The allowance for credit losses under the CECL methodology is determined using the loss rate approach and is measured on a collective (pool) basis when similar risk characteristics exist. The loss rate percentages used are based on the history of credit loss expense, the aging of accounts receivable, and the expectation of payments, with adjustments for current economic conditions and forecasts of future economic conditions. Where accounts receivable do not share risk characteristics, they are evaluated on an individual basis. Amounts are deemed past due when they exceed the payment terms agreed to by the customer. Past due amounts are charged off to the allowance for credit losses when reasonable collection efforts have been exhausted and the amounts are deemed uncollectible. Adjustments to the allowance are recorded as "credit loss expense" in operating expenses, on the statement of functional expenses. As of December 31, 2024, accounts receivable on the statement of financial position included an allowance of \$4,000. There was no change in the allowance during the fifteen months ended December 31, 2024.

Property and Equipment

Property and equipment is carried at the lower of cost or fair value at the time of donation (for in-kind contributions of equipment) and is being depreciated using the straight-line method over estimated useful lives of two to forty years. The Association's policy is to capitalize and depreciate property and equipment which has a cost in excess of \$2,500 and an estimated useful life of at least one year.

Leases

When, at inception of an agreement, it is concluded an agreement includes a lease component, the Association records an operating lease or finance lease based on the agreement. In evaluating contracts to determine if they qualify as a lease, the Association considers factors such as if they have obtained substantially all of the rights to the underlying asset through exclusivity, if they can direct the use of the asset by making decisions about how and what purpose the asset will be used and if the lessor has substantive substitution rights. This evaluation may require significant judgment.

Operating leases are included in property and equipment as operating lease right-of-use (ROU) assets and current and long-term operating lease liabilities on the statement of financial position. Finance leases are included in property and equipment, other current liabilities, and other long-term liabilities on the statement of financial position.

MINNESOTA MUNICIPAL UTILITIES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Description of Organization and Summary of Significant Accounting Policies (Continued)

Leases (Continued)

ROU assets represent the Association's right to use an underlying asset for the lease term and lease liabilities represent the Association's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. The operating lease ROU asset also includes any lease payments made prior to the commencement date and excludes any lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Association will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

In determining the discount rate used to measure the right-of-use asset and lease liability, the Association has elected to use the rate implicit in the lease or the risk-free rate based on information available at the commencement date for the lease term when determining the present value of lease payments.

The Association's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The lease agreements have lease and non-lease components, which are generally accounted for separately. The amount of the non-lease components is typically revised from one period to the next. These variable lease payments, which are primarily comprised of common area maintenance, utilities, and real estate taxes that are passed on from the lessor in proportion to the space leased, are recognized in operating expenses in the period in which the obligation for those payments was incurred.

In allocating consideration in the contract to the separate lease components and the non-lease components, the Association uses the standalone prices of the lease and non-lease components. Observable standalone prices are used, if available. If the standalone price for a component has a high level of variability or uncertainty, this allocation may require significant judgment.

Contract Liabilities

Deferred revenues generally consist of registration fees for educational programs, seminars, and other meetings that are received in advance of the period in which the related events will occur, and advertising fees collected in advance of when the related publications will be issued.

Contributions

Contributions are recognized when the donor makes a promise to give to the Association that is nonreciprocal, does not contain a barrier that must be overcome, and there is no right of return of assets transferred or release of a promisor's obligation to transfer assets present.

MINNESOTA MUNICIPAL UTILITIES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Description of Organization and Summary of Significant Accounting Policies (Continued)

Contributions (Continued)

When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized.

All other contributions received are recorded as net assets with donor restrictions or net assets without donor restrictions depending on the existence and/or nature of any donor restrictions.

Income Taxes

The Association is exempt from federal income tax under Section 501(c)(6) of the Internal Revenue Code. As a result, the Association does not pay federal income tax. Therefore no provision or liability for federal income taxes has been included in the financial statements.

Management has determined that the Association does not have any uncertain tax positions and associated unrecognized benefits that materially impact the financial statements or related disclosures.

The Association's federal informational returns are subject to examination by the IRS, generally for three years after they were filed.

Fair Value of Financial Instruments

The carrying amount for substantially all assets and liabilities approximates fair value due to the immediate or short-term maturity of these financial instruments. The fair value of the Association's long-term debt and long-term lease obligations approximates carrying value because the terms are equivalent to borrowing rates currently available to the Association for debt with similar terms and maturities.

Concentration of Credit Risks

The Association's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and receivables. The Association keeps its cash and cash equivalents with high quality financial institutions. At times, balances maintained at these financial institutions may exceed the federally insured limit. As of December 31, 2024 cash balances in excess of the federally insured limit totaled approximately \$383,000.

Management routinely assesses the financial strength of its donors and customers and as a consequence, believes that receivables credit risk exposure is limited. One customer accounted for approximately 34% of accounts receivable at December 31, 2024.

MINNESOTA MUNICIPAL UTILITIES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Description of Organization and Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Subsequent Events

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through August 4, 2025, the date the financial statements were available to be issued.

2. Liquidity and Availability

The following reflects the Association's financial assets as of December 31, 2024, reduced by amounts not available for general use within one year of the statement of financial position date.

Cash and cash equivalents	\$ 609,362
Accounts receivable, net	<u>925,369</u>
Total financial assets available within one year	1,534,731
Less: Board-designated net assets	<u>(935,936)</u>
Total	<u>\$ 598,795</u>

As part of the Association's liquidity management plan, financial assets are structured to be available as its general expenditures, liabilities and other obligations come due. The Association's Board-designated funds may be drawn upon in the event of financial stress or an immediate liquidity need. In addition, as noted in Note 5, the Association has a line of credit agreement with its bank that it could draw on in the event of an immediate liquidity need.

MINNESOTA MUNICIPAL UTILITIES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Property and Equipment

Property and equipment as of December 31, 2024 consisted of the following:

Leasehold improvements	\$ 585,375
Land	39,000
Building	427,394
Equipment	1,186,397
Vehicles	53,085
Total	<u>2,291,251</u>
Less: Accumulated depreciation	<u>1,272,090</u>
Property and Equipment, net of depreciation	<u>1,019,161</u>
Operating lease right-of-use asset	<u>1,003,544</u>
Property and equipment, net	<u><u>\$ 2,022,705</u></u>

Depreciation expense for the fifteen months ended December 31, 2024 was \$91,782.

4. Training Center

The Association has developed a utility training center in Marshall, Minnesota on a 20-acre site. The Association purchased the land which the training center is located on January 14, 2020 for a total cost of \$39,000. The training center includes both overhead and underground electrical facilities for training on all aspects of electric distribution operations. Natural gas training facilities have also been installed. Future plans include water, wastewater, and telecommunications training facilities, as well as additional electric and natural gas training facilities.

MINNESOTA MUNICIPAL UTILITIES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Obligation Under Line of Credit Agreement

The Association has a line of credit agreement with its bank under which it is able to borrow up to \$300,000 through October 2025. The line charges interest at the Wall Street Journal Prime Rate (7.50% as of December 31, 2024) and is secured by substantially all of the Association's assets. There was no balance on the line of credit and the Association was in compliance with all covenants as of December 31, 2024.

6. Commitments

Finance Lease

The Association has various noncancelable leases for property and equipment which have been capitalized and recorded as property and equipment and finance lease liabilities.

The weighted average remaining lease term for finance leases as of December 31, 2024 was 3.5 years. The weighted average discount rate for finance leases as of December 31, 2024 was 3.75%.

The assets included in equipment related to finance leases were as follows:

Cost	\$	36,661
Less: Accumulated depreciation		<u>9,165</u>
Total	\$	<u><u>27,496</u></u>

MINNESOTA MUNICIPAL UTILITIES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Commitments (Continued)

Finance Lease (Continued)

The following is a schedule of future minimum lease payments under the above lease obligations:

Year Ending December 31,	Totals
2025	\$ 8,100
2026	8,100
2027	8,100
2028	6,075
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Total minimum lease payments	30,375
Less: Amounts representing interest	4,295
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Present value of net minimum lease payments	26,080
Less: Current portion	6,914
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Finance Lease Liability, net of current portion	\$ 19,166
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Operating Leases

The Association leased its office space under an operating lease that expired in October 31, 2024. Under the terms of the lease, the Association was obligated to pay escalation rentals for certain operating expenses and real estate taxes. Subsequently the Association signed a lease for new office space through July 2035. The lease calls for monthly base rent of \$9,756 with increase annually reaching \$13,000. The Association is also responsible for its share of operating costs.

The Association has also entered into various agreements to lease vehicles for employee use. Under the lease agreements, the Association must make monthly payments of varying amounts on the vehicles until the expiration of the individual vehicle leases at various times through 2027. The Association also leases various pieces of office equipment under operating leases.

MINNESOTA MUNICIPAL UTILITIES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Commitments (Continued)

Operating Leases (continued)

The components of rent expense related to operating leases were as follows:

Operating lease cost	\$ 361,197
Variable operating lease costs	<u>101,984</u>
Total Rent Expense	<u>\$ 463,181</u>

The weighted average remaining lease term for operating leases as of December 31, 2024 was 8.1. The weighted average discount rate for operating leases as of December 31, 2024 was 4.60%.

As of December 31, 2024, the minimum future rental payments under the leases were as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2025	\$ 274,222
2026	318,983
2027	198,524
2028	129,434
2029	133,334
Thereafter	<u>829,597</u>
Total	1,884,094
Less: imputed interest	<u>342,478</u>
Operating Lease Liability	<u>\$ 1,541,616</u>

MINNESOTA MUNICIPAL UTILITIES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Net Assets

The Association's board of directors has chosen to place the following designations on net assets without donor restrictions:

Designated for legal and legislative activities	\$ 67,264
Capacity building fund	316,836
Operating reserve fund	<u>551,836</u>
Total Board-Designated Net Assets	<u>\$ 935,936</u>

As part of its mission, the Association performs legal and legislative activities on behalf of its members. To that end, a portion of the Association's net assets have been designated by the board of directors to be used if actual legal and legislative expenses incurred during a fiscal year exceed the budgeted expense amount for the fiscal year. This account is shown in the table above for the period ended December 31, 2024, as net assets designated for legal and legislative activities.

The capacity building fund as noted above will allow the Association to develop programs designed to strengthen and improve the effectiveness and future sustainability of the Association.

The Association's board of directors has also designated a portion of net assets as an operating reserve fund. The purpose of this fund is to establish a reserve equal to one month's operating expenses to be used in the event of an emergency. This amount is shown in the table above for the period ended December 31, 2024, as the operating reserve fund.

8. Revenue and Contract Balances

Revenue, disaggregated by timing of satisfaction of performance obligations, for the fifteen months ended December 31, 2024 was as follows:

Performance obligations satisfied over time	\$ 7,797,413
Performance obligations satisfied at a point in time	<u>15,000</u>
Total	<u>\$ 7,812,413</u>

MINNESOTA MUNICIPAL UTILITIES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Revenue and Contract Balances (Continued)

Revenue from performance obligations satisfied over time consists of membership dues and program revenues. Revenue from performance obligations satisfied at a point in time consists primarily of other revenues.

Contract liabilities include membership dues and registration fees paid in advance and consisted of the following:

	<u>Contract Liabilities</u>
Balance as of October 1, 2023	<u>\$ 412,987</u>
Balance as of December 31, 2024	<u>\$ 107,258</u>

The Association expects to recognize contract liabilities as revenue in the following fiscal year.

9. Defined Benefit Pension Plans

Plan Description

The Association participates in the following cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). These plan provisions are established and administered according to *Minnesota Statutes* chapters 353, 353D, 353E, 353G, and 356. *Minnesota Statutes* chapter 356 defines each plan's financial reporting requirements. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

Membership in the General Plan includes employees of counties, cities, townships, schools in non-certified positions, and other governmental entities whose revenues are derived from taxation, fees, or assessments. Plan membership is required for any employee who is expected to earn more than \$425 in a month, unless the employee meets exclusion criteria.

Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature. Vested, terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service. When a member is "vested," they have earned enough service credit to receive a lifetime monthly benefit after leaving public service and reaching an eligible retirement age. Members who retire at or over their Social Security full retirement age with at least one year of service qualify for a retirement benefit.

MINNESOTA MUNICIPAL UTILITIES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Defined Benefit Pension Plans (Continued)

Benefits Provided (Continued)

General Employees Plan requires three years of service to vest. Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Plan members. Members hired prior to July 1, 1989, receive the higher of the Step or Level formulas. Only the Level formula is used for members hired after June 30, 1989. Under the Step formula, General Plan members receive 1.2 percent of the highest average salary for each of the first 10 years of service and 1.7 percent for each additional year. Under the Level formula, General Plan members receive 1.7 percent of highest average salary for all years of service. For members hired prior to July 1, 1989 a full retirement benefit is available when age plus years of service equal 90 and normal retirement age is 65. Members can receive a reduced requirement benefit as early as age 55 if they have three or more years of service. Early retirement benefits are reduced by .25 percent for each month under age 65. Members with 30 or more years of service can retire at any age with a reduction of .25 percent for each month the member is younger than age 62. The Level formula allows General Plan members to receive a full retirement benefit at age 65 if they were first hired before July 1, 1989 or at age 66 if they were hired on or after July 1, 1989. Early retirement begins at age 55 with an actuarial reduction applied to the benefit.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. The 2024 annual increase was 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a prorated increase.

Contributions

Minnesota Statutes chapters 353, 353E, 353G, and 356 set the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2024 and the Association was required to contribute 7.50 percent for Coordinated Plan members. The Association's contributions to the General Employees Fund for the period ended December 31, 2024 were \$271,052. The Association's contributions were equal to the required contributions as set by state statute.

MINNESOTA MUNICIPAL UTILITIES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses are allocated on the basis of estimates of time and effort.

11. Related Party Transactions

The Association pays expenses on behalf of related parties, Midwest Consortium of Municipal Utilities (MCMU) and Minnesota Municipal Gas Agency (MMGA). Related parties reimburse the Association for all direct expenses, in addition to paying an administrative fee. Included in accounts receivable were receivables from MCMU totaling \$299,141 at December 31, 2024. Included in other assets is \$20,373 due from MMGA as of December 31, 2024.

Collection of the balance due from MMGA is due on demand. The Association does not intend to pursue collection in the next year and has presented this receivable as long-term in the statement of financial position. Collection is fully expected and, accordingly, no allowance has been provided.

Total revenues received from related parties for the period ended December 31, 2024 was \$23,952. Total expenses paid on behalf of related parties for the period ended December 31, 2024 was \$23,952.